

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-01 PA-01 PRS-01 NEA-10 IO-13 FEA-01

ERDA-05 /110 W

-----061841 170617Z /15

P 170304Z AUG 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 3819

INFO AMEMBASSY BANGKOK PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: NA

TAGS: EAID, EFIN, TH

SUBJECT: PROPOSED ADB LOAN FOR THIRD EGAT POWER PROJECT (THAILAND)

SUMMARY: ADB MANAGEMENT PROPOSED \$47.0 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO ELECTRICITY GENERATING AUTHORITY OF THAILAND (EGAT) TO FINANCE FOREX COST OF EXPANSION OF TRANSMISSION SYSTEM AND INSTALLATION OF HYDROPOWER STATION. PROPOSED PROJECT IS ESSENTIALLY AN EXTENSION OF REINFORCEMENT OF NATIONWIDE POWER GRID THAT WAS INITIATED BY TWO EARLIER BANK LOANS. BROAD PURPOSES INCLUDE MEETING GROWTH IN DEMAND IN ADEQUATE MANNER; MAXIMIZING UTILIZATION OF EXISTING HYDRO GENERATION RESOURCES; AND REPLACING HIGHER COST DIESEL OPERATION. PROJECT WILL RESULT IN SUBSTANTIAL SAVINGS THROUGH MAXIMUM USE OF INDIGENOUS ENERGY RESOURCES FOR POWER GENERATION AND WILL HELP PROMOTE ECONOMIC AND POLITICAL INTEGRATION OF COUNTRY. USADB RECOMMENDS FAVORABLE NAC ACTION. END  
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SUMMARY.

1. ADB DOC. R80-77 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES 12 AUGUST 1977. BOARD CONSIDERATION SCHEDULED 25 AUGUST.

2. ADB MANAGEMENT PROPOSING \$47.0 MILLION LOAN FROM

ORDINARY CAPITAL RESOURCES TO EGAT. PROCEEDS WILL FINANCE FOREX COST OF (A) ADDITION OF ONE UNIT TO BHUMIBOL HYDRO-POWER PLANT AND (B) CONTINUING EXPANSION OF POWER TRANSMISSION SYSTEM AS AN EXTENSION OF PROGRAMS UNDERTAKEN WITH EARLIER BANK FINANCING. LOAN ALSO INCLUDES \$7.0 MILLION FOR CAPITALIZATION OF INTEREST AND OTHER CHARGES DURING CONSTRUCTION. PROPOSED TERMS ARE 20-YEAR AMORTIZATION INCLUDING 5-YEAR GRACE PERIOD, 8.3 PERCENT INTEREST. EGAT TO BE BORROWER AND EXECUTING AGENCY, AND KINGDOM OF THAILAND TO BE GUARANTOR.

3. EGAT ACCOUNTS FOR ABOUT 95 PERCENT OF THAILAND'S PRODUCTION OF ELECTRICITY AND SELLS POWER IN BULK TO TWO DISTRIBUTION UTILITIES AND NINE LARGE INDUSTRIAL CUSTOMERS. IN GREATER BANGKOK AREA, DISTRIBUTION IS UNDERTAKEN BY METROPOLITAN ELECTRICITY AUTHORITY (MEA) AND IN REMAINDER OF COUNTRY BY PROVINCIAL ELECTRICITY AUTHORITY (PEA).

4. IN FY1976, SOURCES OF ENERGY GENERATION WERE 42.3 PERCENT HYDRO, 55.9 PERCENT THERMAL (LARGO OIL-FIRED STREAM TURBINES AND LIGNITE PLANTS), AND 1.8 PERCENT PURCHASED FROM LAOS (NAM NGUM HYDROPOWER STATION). WITH EXCEPTION OF SOUTHERN THAILAND, SYSTEM IS INTER-CONNECTED. ENTIRE BANGKOK METROPOLITAN AREA (540,000 CUSTOMERS) IS NOW SUPPLIED BY MEA, AND MOST OF UNSERVICED POTENTIAL LIMITED OFFICIAL USE

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CUSTOMERS ARE IN SUBURBAN AND RURAL AREAS. PEA CURRENTLY SUPPLIES ELECTRICITY TO ABOUT 780,000 THROUGHOUT COUNTRY. WHEREVER POSSIBLE, PEA'S DISTRIBUTION FACILITIES ARE INTER-CONNECTED WITH EGAT SYSTEM, BUT A PORTION OF ITS ENERGY REQUIREMENTS ARE STILL GENERATED BY ISOLATED DIESEL STATIONS.

5. GROWTH IN MEA'S ENERGY SALES HAS SLACKENED SOMEWHAT IN RECENT YEARS BUT STILL ACCOUNTED FOR 64.3 PERCENT OF EGAT'S TOTAL IN FY1976, COMPARED WITH 30.6 PERCENT FOR PEA. HOWEVER, PEA'S SALES HAVE RISEN BY 21.6 PERCENT IN FY1974-76, AS PRIVATE INDUSTRIES HAVE BEEN ABLE TO SWITCH OFF DIESEL SETS AND INTERCONNECT WITH PEA. LATTER'S RAPID GROWTH RATE WILL CONTINUE AS ITS ACCELERATED RURAL ELECTRIFICATION PROGRAM (FOR WHICH ADB AND IBRD ARE CONSIDERING LOAN FINANCING) GETS UNDERWAY. PROPOSED CENTRAL-SOUTHERN TIE LINE, A MAJOR COMPONENT OF PROJECT WILL INTERCONNECT SOUTHERN POWER SYSTEM WITH CENTRAL GRID. TIE LINE, EXPECTED TO BE COMPLETED IN EARLY 1980, WILL HELP MEET THIS RAPIDLY RISING DEMAND.

6. PROPOSED PROJECT IS IN TWO PARTS. FIRST PART

PROVIDES FOR ADDITION OF ONE UNIT (SEVENTH) TO BHUMIBOL HYDROPOWER PLANT IN NORTHERN THAILAND, CONSISTING OF: (A) INSTALLATION OF ONE TURBINE-GENERATOR SET OF ABOUT 90 MW RATED CAPACITY, ASSOCIATED ELECTRICAL AND MECHANICAL EQUIPMENT, AND EXTENSION OF POWER STATION BUILDING; (B) EXTENSION OF SWITCHYARD AND ADDITION OF ONE MAIN TRANSFORMER; AND (C) CONSULTING SERVICES. ADDITION OF UNIT 7 IS LEAST-COST ALTERNATIVE OF PROVIDING INCREMENTAL PEAKING CAPACITY IN SYSTEM AND WILL ENABLE EGAT TO MAXIMIZE USE OF EXISTING HYDRO RESOURCES. IT IS SCHEDULED TO BE COMMISSIONED BY EARLY 1982.

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ERDA-05 /110 W

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P 170304Z AUG 77

FM AMEMBASSY MANILA

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7. SECOND PART PROVIDES FOR TRANSMISSION SYSTEM EXPANSION, CONSISTING OF : (A) CONSTRUCTION OF ABOUT 350 KM. OF DOUBLE CIRCUIT 115KV TRANSMISSION LINES FOR SOUTHERN TIE LINE AND ABOUT 208 KM. OF SINGLE CIRCUIT 115KV TRANSMISSION LINES; (B) CONSTRUCTION OF FIVE NEW 115KV SUB-STATIONS WITH TOTAL CAPACITY OF 125 MVA AND EXTENSION OF FOUR EXISTING 115KV SUB-STATIONS IN CONNECTION WITH PROPOSED TRNNAMMISSION LINE CONSTRUCTION;

(C) INSTALLATION OF 15 NEW TRANSFORMERS AT VARIOUS EXISTING SUB-STATIONS\*( INCREASING CAPACITY BY 725 MVA;  
(D) INSTALLATION OF SHUNT CAPACITOR BANKS OF 274 MVA AT

VARIOUS SUB-STATIONS; (E) EXPANSION OF UTILITY COMMUNICATION SYSTEMS; (F) MISCELLANEOUS SYSTEM EXPANSION; AND (G) CONSULTING SERVICES. TIE LINE WILL ALLOW BULK

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TRANSFER OF UP TO 40 MW BETWEEN CENTRAL GRID AND SOUTHERN SYSTEM. OTHER POWER TRANSMISSION COMPONENTS ARE LOCATED IN VARIOUS PARTS OF THAILAND AND ARE EXPECTED TO BE COMPLETED BEFORE END-1981.

8. TOTAL PROJECT COSTS ARE ESTIMATED AT \$73.3 MILLION EQUIVALENT, INCLUDING FOREX COST OF \$47.1 MILLION. PROPOSED BANK LOAN OF \$47.0 MILLION EXCLUDES \$100,000 OF FOREX COST COVERING ENGINEERING (CONSULTANT) SERVICES FOR BHUMIBOL UNIT 7, WHICH EGAT IS FINANCING FROM ITS OWN RESOURCES. PROPOSED LOAN INCLUDES \$7.0 MILLION FOR INTEREST AND OTHER CHARGES DURING CONSTRUCTION. LOCAL COSTS WILL BE FINANCED OUT OF EGAT'S INTERNAL RESOURCES.

9. IN ACCORDANCE WITH BANK'S POLICY ON DOMESTIC PROCUREMENT, ESTIMATED FOREX COMPONENT OF ALUMINUM CONDUCTORS, CONTROL AND POWER CABLES AND STEEL STRUCTURES FOR SUBSTATIONS AND SWITCHYARD (COMPRISING ABOUT TEN PERCENT OF PROPOSED LOAN) ARE PROPOSED TO BE PURCHASED FROM LOCAL SUPPLIERS. FOR ALL OTHER ITEMS, EXPENDITURES OF \$150,000 OR MORE WILL BE AWARDED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING; SMALLER CONTRACTS ON BASIS OF INTERNATIONAL SHOPPING. REGARDING CONSULTING SERVICES FOR IMPLEMENTATION OF TRANSMISSION AND SUBSTATION COMPONENTS, EGAT PROPOSES TO USE TWO OR THREE INDIVIDUAL CONSULTANTS HIRED UNDER TERMS OF TWO EARLIER BANK LOANS WHO WERE RECRUITED ON BASIS BANK'S GUIDELINES ON USES OF CONSULTANTS.

10. EGAT IS STATUTORY CORPORATION REPORTING TO PRIME MINISTER'S OFFICE AND BECAME OPERATION IN 1969. INCUMBENT GENERAL MANAGER HAS HELD POSITION FOR ABOUT 15 YEARS,

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WITH EGAT AND ITS PREDECESSOR. ITS OPERATING PERFORMANCE HAS BEEN SATISFACTORY OVER PAST FIVE YEARS. ITS FINANCIAL POSITION REMAINS SATISFACTORY DUE TO GOOD MANAGEMENT AND ACTIVE, SUSTAINED GOVERNMENT FINANCIAL SUPPORT. EGAT HAS

COMPLIED WITH ALL MAJOR CONVENATS UNDER PREVIOUS BANK LOANS, EXCEPT FOR SOME CONSULTATION PROCOEDRUES REGARDING TARIFF CHANGES AND DELAYS WITH RESPECT TO INTRODUCTION OF A FUEL ADJUSTMENT CLAUSE IN ITS TARIFFS ON OCTOBER 1, 1975, OR SUCH OTHER DATE AGREED AMONGST GOVERNMENT, EGAT AND BANK. THIS WAS NOT DONE BECAUSE GOVT OPTED NOT TO PASS ON OCTOBER 1975 INCREASED FUEL COST TO EGAT, INSTEAD SUBSIDIZING IT OUT OF BUDGET. EGAT HAS NOW AGREED TO INTRODUCE FUEL CLAUSE AS A CONDITION OF EFFECTIVENESS OF PROPOSED LOAN. RESULTING INCREASE IN EGAT'S BULK TARIFFS IS EXPECTED TO COVER IN FULL 1977 OIL PRICE INCREASE AND REMOVAL OF OIL SUBSIDY IN EFFECT SINCE OCTOBER 1975. (IN JULY 1977, THAI CABINET APPROVED INTRODUCTION OF FUEL ADJUSTMENT CLAUSE AND AVERAGE TARIFF INCREASE OF ABOUT 30 PERCENT FROM AUGUST 1, 1977, WHICH IS MORE THAN WHAT HAS BEEN ASSUMED IN FORECASTS.)

1. PROPOSED PROJECT IS CONSIDERED PARTICULARLY APPROPRIATE AT THIS TIME IN LIGHT OF HIGH OIL PRICE. PROJECT WILL (A) RESULT IN SUBSTANTIAL SAVINGS THROUGH MAXIMUM USE OF INDIGENOUS ENERGY RESOURCES; (B) STIMULATE OPERATION OF A SOUND BASE FOR DEVELOPMENT OF LIGHT INDUSTRY IN RURAL AREAS AND ALSO PROVIDE ADEQUATE AND RELIABLE POWER FOR CONTINUED GROWTH OF EXISTING INDUSTRIAL CENTERS; AND (C) ASSIST IN DECENTRALIZATION OF ECONOMIC ACTIVITY AWAY FROM METROPOLITAN BANGKOK AND STRENGTHEN POWER LINKS BETWEEN CENTRAL AND OUTLYING PROVINCES, THUS PROMOTING ECONOMIC AND POLITICAL INTEGRATION OF THAILAND. ECONOMIC INTERNAL RATE OF RETURN IS ESTIMATED AT 25 PERCENT FOR HYDRO COMPONENT AND 30 PERCENT FOR CENTRAL-SOUTHERN TIE LINE COMPONENT. WITH INTRODUCTION INTO EGAT'S TARIFF LIMITED OFFICIAL USE

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SCHEDULE OF FUEL ADJUSTMENT CLAUSE SATISFACTORY TO BANK, USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

12. REQUEST BANGKOK'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972. EDMON

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**To:** STATE  
**Type:** TE  
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**Review Markings:**  
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